



The change of auditor: The Portuguese case



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ABSTRACT

Problems regarding the change of auditor and the opinion issued by the auditor through the financial audit report have been shown to be an important issue.

The objective of this study is to examine to what extent the change of auditor is related to the type of opinion that the auditor expressed in the audit report.

In pursuit of this objective, an empirical study was carried out supported by a sample from a set of entities with securities admitted to trading on the Portuguese stock market in the period between 2006 and 2012 (seven years) and using logistic regression to test whether the reception of the qualified audit report indicated the change of auditor.

The findings point to there being a significant positive relationship between the qualified audit report and a change of auditor, verifiable for qualified opinions on assets and others, but not to the qualified opinions on equity and liabilities.

The largest number of qualified opinions occur in the years 2007, 2009 and 2011, most of which were related to equity and assets, and the change of auditor is more associated with qualified opinions on assets and other qualified opinions than the qualified opinions on equity and liabilities.

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El cambio de auditor: El caso portugués

RESUMEN

Los problemas existentes relativos al cambio de auditor y a la opinión emitida por el auditor a través del informe de la auditoría financiera está probado que se trata de un tema de gran interés.

El objetivo de esta investigación es examinar hasta que punto el cambio de auditor está relacionado con el tipo de opinión que el auditor expresa en el informe de la auditoría.

En la consecución de este objetivo se llevó a cabo un estudio empírico apoyado en una muestra, un conjunto de entidades con valores admitidos a negociación en el mercado de valores portugués, en el período comprendido entre 2006 y 2012 (siete años) mediante regresión logística utilizada para comprobar si la recepción del informe de auditoría financiera lleva al cambio de auditor.

Los resultados apuntan a la existencia de una relación positiva significativa entre el informe de auditoría y el cambio de auditor, verificable por las reservas de activos y otros, pero no a las reservas de los fondos propios y prestados.

El mayor número de reservas se produce en los años 2007, 2009 y 2011, la mayor parte de las reservas naturales se relaciona con la equidad y activos, y el cambio de auditor está más asociado con las reservas de activos y otras reservas que con las reservas de los fondos propios y ajenos.

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Introduction

The audit report issues the auditor's opinion on the financial demonstrations of the enterprise, such that it becomes of huge

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importance, both for the users of the financial information and for the administration of the enterprise.

However, the users of the financial information often misunderstand that the auditor's opinion is too technical and concise and the administration of the enterprises may be tempted to relate the auditor's continuity with his/her opinion.

The research undertaken studies the relationship between the kind of opinion issued by the auditor in his/her annual report and the change of auditor, in terms of his/her continuity, from a sample of entities with values admitted to trade in the Portuguese stock market, in the period between 2006 and 2012, and used logistic regression to test whether the reception of the audit report from four types of qualified opinions indicated the change of auditor.

The article is structured in four parts: the first one discloses the audit's theoretical context in terms of the report and the auditor's opinion and the second one reviews the factors that explain the change of the auditor, the third develops the empirical study in terms of sampling and variables, and the fourth and last part discusses the results.

In the current economical and social context of our society this article aims to enhance the scientific contribute on the issue of the change of auditor, which has given rise to so much controversy from the researchers and authors in the science community.

This research advantageously enhances the nature and the potential impact of the information provided by the auditor to anyone interested in the entities and allows stakeholders to question the administration on the information reliability and the current auditor's trust.

Audit's theoretical framework

The audit report

The audit report is the document where the auditor issues his/her opinion on the financial demonstrations of the enterprise audited, such that this opinion is regarded by society as having a public character. The audit report is often regarded as a "barometer" for the enterprise's financial situation and not only as a document that reveals reliability on the financial demonstrations (Arens and Loebbecke, 1996), such that the audit report is the climax of the audit process through which the auditor issues his/her opinion on the audited financial demonstrations or the reasons not to issue them.

Under that line of thought, Becker, Defond, Jiambalvo, and Subramanyam (1998) state that the audit reduces the existing information differences among the managers and the remaining people interested on the enterprise, since the users of such information gain access to reliable financial demonstrations through the certification conveyed by the auditor.

Thus, the message issued by the auditor must be perfectly understood and its function clearly defined, that is, "*the issuer task is to fight for a simple, clear, interesting and interactive message, in such a way that it conveys at least the main points to the public target*" (Kotler, 1996).

To Pasiouras, Gaganis, and Zopounidis (2007) the audit report consists of a report where the auditor issues an opinion regarding the financial demonstrations of the audited enterprise, enhancing whether they are free from relevant distortions and whether they were developed according to the specific current legislation and follow the accounting norms and principles.

Also to Hope and Langli (2010), the audit report is an instrument of communication, wherein the related parts are informed on the conclusions provided by the auditor, as well as on the possible problems found in the internal controls and/or the

financial demonstrations of the enterprises audited, including those regarding the enterprise ability to continue.

The justified theories of the audit in the present society must be framed in the financial information area since the audit report and its publishing are a reliability element added to that information.

Finding an adequate theory to explain its existence is, in the opinion of Almeida and Silva (2013) an academic and intellectual challenge, wherein the agency's theory is the one which is more inclusive and unifying of the various justifying theories.

The agency's theory comes from the separation between property and entities management, which has given rise to differences in the information and agency conflicts among owners and managers, thus strengthening the auditor's role for its reliability and credibility provided to the society since it forms an instrument of screening and reduction of the agency's conflict.

This way, by being part of the social control process (Lee, 1996) or of the responsibility of providing the accounts Flint, 1988) the audit is justified on the basis of the agency's theory, which is regarded to a certain extent as a cover for the risk of information (Porter, Simon, & Hatherly, 2008).

In the same line, Almeida and Silva stated that "*the auditor may be seen as a referee who defines the consistency of the financial demonstrations developed by the agent, taking as a pattern the rules of accounting (. . .) and as such the auditor is regarded as an agent who verifies the actions of another in a context of minimization of the main cost*" (p. 48).

Nonetheless, it is also important to refer that the auditory is related to the theory of signalling (disclosure and transparency regarding the market signals the entity and may reduce the financing costs), to the decision taking theory (as it allows for the assessment of the information value to potentiate better decisions, according to Saada, 2000), to the theory of the government of societies (according to Power (1997) as it is an inclusive part of the architecture of control imposed by internal or external motives), the theory of insurance (according to Cosserat and Rodda (2009) the insolvency is sought to be associated with an audit's flaw, supported by the assumption that the release of fraud financial information is also the auditor's responsibility).

The relevance and understanding of the audit report

Authors such as Siqueira (2004), Boynton, Johnson, and Kell (2002), Wiesner (1987), Ricchiute (2002) and Cabal Garcia (2001) and national and international organizations such as the American Institute of Certified Public Accountants (AICPA), the Institute of Chartered Accountants in England & Wales (ICAEW), the Compagnie Nationale des Commissaires aux Comptes (CNCC), the Ordem dos Revisores Oficiais de Contas (OROC), the Instituto de Contabilidade y Auditoría de Cuentas (ICAC), the International Federation of Accountants (IFAC) and the European Federation of Accountants have been concerned about the clarification of the audit report's main causes for not being fully understood. The main reasons for the report's lack of understanding are as follows:

- Standardized report: as the structure of the report is according to the norms, regardless of the activity sector it is applied to, it becomes more a symbolic document than a communication between the auditor and the user, which leads to the users not reading the audit reports.
- Technical language: the commission for the auditor's responsibilities (Cohen Commission) enhances the use of a highly standardized language which results in an ambiguity for most of the users who often lack the accountant or audit skills.

The users are not familiar with the terminology used in the reports and that is why they find it difficult to understand the

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